

## Message Text

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44

ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FS-01 ABF-01 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02 L-03 PA-01

PRS-01 PC-01 /088 W

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R 191500Z JUL 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 876

INFOURUESGY/AMCONSUL GUAYAQUIL 8995

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E.O. 11652: N/A

TAGS: EGEN EC

SUBJ: RUMORS OF IMPENDING DEVALUATION OF SUCRE PERSIST DESPITE ALL  
EVIDENCE TO THE CONTRARY

1. DURING THE PAST TWO WEEKS STRONG RUMORS HAVE BEEN SPREADING  
IN BUSINESS CIRCLES IN QUITO AND GUAYAQUIL TO THE EFFECT THAT  
THE GOE WILL SOON DEVALUATE THE SUCRE. WHEN THE RUMORS HIT  
THE PRESS ON JULY 7 THE GOE FINANCE MINISTER ROBALINO HIT THE  
CEILING; IN AN IMPROMPTU PRESS CONFERENCE HE CONVENED UPON  
ARRIVING IN GUAYAQUIL AND FINDING THE STORY PUBLISHED IN "EL  
UNIVERSO," HE HEATEDLY DENIED THAT THE GOE HAS ANY INTENTION  
TO DEVALUATE THE CURRENCY, AND QUOTED VARIOUS FACTS AND FIGURES  
TO DEMONSTRATE THAT THERE IS NO NEED WHATEVER FOR DEVALUATION  
AT THIS TIME AND FOR A CONSIDERABLE TIME TO COME. SINCE THEN  
THE FINANCE MINISTER, THE DIRECTOR OF THE CENTRAL BANK AND A  
VARIETY OF OTHER GOE OFFICIALS HAVE REPEATED THE DENIALS IN  
PRESS STORIES APPEARING VARITUB  
LLYNKAILY, REITERATING AND  
UPDATING THE ECONOMIC DATE SUPPORTING HEIR ASSERTION THAT  
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DEVALUATION IS TOTALLY UNNECESSARY.

2. EMBASSY COMMENT: OUR OWN ANALYSIS OF THE ECUADOREAN ECONOMIC SITUATION FULLY CORROBORATES THE GOE OFFICIALS' ASSERTION \*THAT DEVALUATION IS UNNECESSARY. AS DETAILED IN OUR SEMI-ANNUAL ECONOMIC TRENDS REPORT WHICH IS BEING POUCHED JULY 19, EXPORT EARNINGS SO FAR IN 1976 HAVE BEEN WELL ABOVE THOSE OF THE SAME PERIOD OF 1975, WHILE IMPORTS ARE RUNNING BELOW THE SAME PERIOD OF LAST YEAR (AFTER SEVERAL YEARS OF PHENOMENAL INCREASES IN IMPORT PAYMENTS). WITH THE BALANCE OF PAYMENTS RUNNING NICELY IN THE BLACK, RESERVES OF GOLD AND FOREIGN EXCHANGE HAVE BEEN MZXUNTING FAR MORE RAPIDLY THAN THE GOE HAD OFFICIALLY PREDICTED AT THE START OF 1976, AND REACHED \$304 MILLION BY THE END OF JUNE (\$320 MILLION AS OF JULY 15, ACCORDING TO A STATEMENT BY THE PRESIDENT OF THE MONETARY BOARD IN A PRESS CONFERENCE THAT DAY), OR ENOUGH TO COVER WELL OVER THREE MONTHS" IMPORTS.

3. VTHE RUMORS APPEAR TO HAVE BEEN PROMPTED BY A RECENT

WEAKENING OF THE SUCRE IN RELATION TO THE DAOLLAR. WHILE THE OFFICIAL RATE REMAIND AT 25 SUCRES TO ONE DOLLAR, THE FREE MARKET RATES IN QUITO AND GUAYAQUIL HAVE RECENTLY BEEN AROUND THE 28 MARK, MORE THAN TEN PERCENT HIGHER THAN THEY WERE ONE YEAR AND A HALF EARLIER. THE TREAND PROBABLY REPRESENTS NO MORE THAN CHANGING PRICE RELATIONSHIPEBOETWEEN ECUADORRRS INFLATION RATE AND THAT OF ITS MAJOR TRADING PARTNERS. BY ALLOWING THE PARALLEL MARKET TO CONTINUE TO RELFECT THESE MODERATE CHANGES, THE MONETARY AUTHORITIES ARE WISELY KEEPING ECUADOR NON-PETROLEUM EXPOROTS COMPETITIVE.

4. THE JULY 15 ANNOUNCEMENT BY THE MONETARY BOARD PRESIDENT SAYING THE GOE IS UNDERTAKING AN INVESTIGATION OF THE CAUSES OF THE WEAKENING OF THE SUCRE APPEARS TO BE A TACAUCALLY SILLY OVERRESPONSE.

5. THE VERY VEHEMENCE OF THE GOE'S DENIALS SEEM TO BE INSTILLING FURTHER FEARS AMONG THE GENERAL PUBLIC THAT DEVALUATION MAY INDEED BE IN THE WORKS. EMBASSY CONTACTS TELL US THEY HAVE NOT FORGOTTEN THAT HIGH-LEVEL PRONOUNCE-LIMITED OFFICIAL USE

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MENTS DENYING THEPOSSIBILITY OF DEVALUATIION IMMEDIATELY PRECEDED THE DEVALUATION IN JUNE 1970. NONETHELESS, WE BELIEVE THAT THE OFFICIALS MAKING SUCH STATEMENTS THIS TIME REALLY MEAN IT. END COMMENT. BLOOMFIELD

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## Message Attributes

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**Concepts:** SUCRE (CURRENCY), DEVALUATIONS  
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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
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**To:** STATE GUAYAQUIL  
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